

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 360 - SB 565

February 22, 2011

SUMMARY OF BILL: Exempts the retail sale of food and food ingredients from the state sales tax, provided that nothing is construed to exempt the retail sale of food and food ingredients from local option sales tax. Removes section of Tennessee Code Annotated that requires all state sales tax revenue derived from the first one-half percent of the state sales tax rate levied on food and food ingredients be deposited to the General Fund and earmarked for the purpose of education.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$456,014,500

Decrease Local Revenue – Net Impact - \$16,584,400

Assumptions:

- Local option sales tax revenue will not change as a result of this bill.
- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ($\$476,900,000 \times 102.0\% \times 102.0\%$). As a result, the recurring decrease to state sales tax revenue will be \$496,166,800.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared tax revenue.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- The net recurring decrease to state revenue will be \$456,014,502 [$\$496,166,800 - (\$496,166,800 \times 4.5925\%) - (\$496,166,800 \times 50.0\% \times 7.0\%)$].
- The net recurring decrease to local government revenue will be \$16,584,375 [$(\$496,166,800 \times 4.5925\%) - (\$496,166,800 \times 50.0\% \times 2.5\%)$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "James W. White". The signature is written in a cursive style with a large initial "J" and "W".

James W. White, Executive Director

/rnc